



# **DEPARTMENT OF LABOR AND REGULATION DIVISION OF BANKING**

## **TRUST COMPANY INFORMATION PACKET**

## TABLE OF CONTENTS

APPLICATION PROCESS

CHANGE IN MANAGEMENT

SOUTH DAKOTA SITUS

TRUST COMPANY REQUIREMENTS

SUPERVISORY FEES

FINANCIAL INSTITUTION TAX

STATEMENT OF PRINCIPLES OF TRUST MANAGEMENT

EXAMINATION PROCEDURES

ADDITIONAL GUIDANCE

## APPLICATION PROCESS

Before the application is deemed complete, the applicants are required to submit a complete and thorough application and schedule an in-person meeting with the Director of the South Dakota Division of Banking (Division). An electronic fill-in version of the application can be found at the Division's website: <http://dlr.sd.gov/banking/default.aspx>. Pursuant to South Dakota Codified Law (SDCL) 51A-6A-17, an independent criminal background investigation, independent credit report, and litigation report must be submitted for each incorporator, organizer, board member, manager, officer, and key employee of the proposed trust company. Persons convicted of certain crimes are ineligible participants. Criminal background investigations for public trust company individuals will be performed via fingerprints on cards provided by the Division; two fingerprint cards, one for the Federal Bureau of Investigation and one for the South Dakota Division of Criminal Investigation, must be submitted along with a check made payable to the "South Dakota Division of Criminal Investigation" for \$43.25 for each individual receiving the background check. Criminal background investigation for private trust company individuals require only a name-based criminal background investigation performed by an independent third party, in addition to a credit report and litigation report. For both public trust companies and private trust companies, litigation reports may be provided as a third party report (preferred) or by way of a sworn affidavit if sufficiently detailed.

When the Application is deemed complete, the Division will publish a Notice of Application in the community most directly affected by the proposed trust company. A thirty-day comment period will commence on the publication date and at the close of the comment period, the Director is provided fifteen days to issue a decision on the Application. A fifteen-day appeal period follows for an Applicant that is aggrieved by the Director's decision or an objection that is filed within the thirty-day comment period. The Director will issue a Director's Decision and Order (Order) to the Applicants confirming charter approval. Once the Order is issued, the Applicants must submit the following information to the Division before the Charter and Certificate of Authority is issued:

- Trust company contact name, email address, phone number, and title;
- Articles of Incorporation/Organization – The Division will review and the Director will sign and forward the Articles to the South Dakota Secretary of State for filing. Include a payment made payable to the "South Dakota Secretary of State" for the current filing fee plus a \$15 fee for a certified copy, to be retained by the Division;
- Proof of Capital pursuant to SDCL 51A-6A-10 and 51A-6A-19;
- Proof of Insurance as required by SDCL 51A-6A-19;
- Pledge Agreement and proof of pledge pursuant to SDCL 51A-6A-19.2;
- By-laws or Operating Agreement to be adopted at the first meeting of the trust company;
- Statement of Principles of Trust Management specific to the trust company to be adopted at the first meeting of the trust company;
- ACH Authorization Form;
- Company-Specific Email Address (individual-specific email address are not acceptable);
- Oath of Directors or Oath of Managers;
- List of Owners; and,

- Officer and Employee Schedule.

An electronic copy of the Oath of Directors/Managers, List of Owners, and Officer and Employee Schedule can be found on the Division's website at the following address:

<http://dlr.sd.gov/banking/default.aspx>

Trust Applicants are encouraged to thoroughly review SDCL 51A-6A, which pertain to the operation and creation of a South Dakota trust company and Title 55 which addresses trust law in South Dakota. These chapters are available for online viewing at

<http://legis.state.sd.us/statutes/TitleList.aspx>.

#### CHANGE IN MANAGEMENT

Effective July 1, 2010, criminal background investigation, credit reports, and litigation reports are required for new hires of existing South Dakota-chartered trust companies (SDCL 51A-6A-17). Management personnel are defined as incorporators, organizers, board members, managers, officers, and key employees. As with the application process, the background review requirement for new hires is structured differently for public and private trust companies. New hires for public trust companies must undergo the fingerprint-based criminal background investigation in addition to a credit report and litigation report. New hires for private trust companies only require name-based criminal background investigation, in addition to a credit report and litigation report. For both public trust companies and private trust companies, litigation reports may be provided as a third party report (preferred) or by way of a sworn affidavit if sufficiently detailed. All trust companies are required to immediately notify the Division of any material change to the background of any individual that would otherwise be subject to this process. All costs associated with these processes are to be paid by the applicant or trust company as applicable.

A Biographical and Financial Report for each new hire must be completed and submitted with the required background information; an electronic fill-in form is available on the Division's website.

#### SOUTH DAKOTA SITUS

SDCL 51A-6A-11.1 establishes jurisdiction criteria needed to establish South Dakota situs. Public trust companies must maintain office space for trust company business and for the storage of, and access to, trust company records pursuant to SDCL 51A-6A-30; hold no less than two governing board meetings with a quorum physically present in South Dakota annually; employ, engage, or contract with at least one trust officer or key employee; and perform trust administration in South Dakota. For purposes of SDCL 51A-6A-11.1, trust administration is defined in ARSD 20:07:22:04 and means that at least three of the following are performed wholly or partly in South Dakota:

- Annual account reviews;
- annual investment reviews;
- trust accounting;

- account correspondence;
- completing trust account tax returns; or,
- distributing account statements.

A public trust company with at least one employee located in South Dakota who performs any of the above activities in South Dakota, for a majority of the accounts, establishes a rebuttable presumption of compliance.

#### TRUST COMPANY REQUIREMENTS

Prior to obtaining a South Dakota trust charter, an application must be submitted with a \$5,000 nonrefundable application fee. Prior to conducting trust business, the capitalization of the proposed trust company shall not be less than \$200,000, or a level deemed appropriate by the Director, pursuant to SDCL 51A-6A-19; a fidelity bond and director's and officer's liability insurance policy coverage of at least \$1,000,000 each pursuant to SDCL 51A-6A-19; and a deposit must be pledged to the Division in the amount of \$100,000 pursuant to SDCL 51A-6A-19.2.

#### SUPERVISORY FEES

Pursuant to ARSD 20:07:22:01, a South Dakota-chartered trust company is subject to an annual supervisory fee computed at the rate of seven cents per \$10,000 of total trust assets under management, administration, or custody as reported as of the end of December. The minimum annual fee is \$3,750 and the maximum annual fee is \$20,000 for private trust companies, while the minimum annual fee is \$4,500 and the maximum annual fee is \$30,000 for public trust companies. In addition, trust companies shall pay the actual cost for each on-site examination and the additional supervision costs for any trust company operating under an enforcement action.

#### FINANCIAL INSTITUTION TAX

South Dakota chartered trust companies are defined as a financial institution pursuant SDCL 10-43-1(4). SDCL 10-43-4 imposes a net income-based tax on South Dakota sitused financial institutions. However, SDCL 10-43-90 imposes a minimum financial institution tax on South Dakota chartered trust companies. The minimum financial institution tax applied to South Dakota chartered trust companies is tiered over the first five years of operations. The annual minimum tax is \$500 for fewer than 12 months of operations; \$2,000 for over 12 months but less than 24 months of operations; \$5,000 for over 24 months but less than 36 months of operations; \$10,000 for over 36 months but fewer than 48 months of operations; and \$25,000 annually after 48 months.

#### STATEMENT OF PRINCIPLES OF TRUST MANAGEMENT

The organizers/managers must adopt the following Statement of Principles of Trust Management at the first board of directors meeting. *The Statement should be revised as appropriate based on the size, complexity, and risk profile of the proposed trust company.*

Nothing herein is intended to prohibit the board of directors from acting as the trust committee, or from appointing additional committees and officers to administer the operations of the trust company. When delegating duties to subcommittees and/or officers, the board and the trust committee continue to be responsible for the oversight of all trust activities. Sufficient reporting and monitoring procedures should be established to fulfill this responsibility.

The board of directors, by proper resolution included in its minutes, should:

1. Designate an officer, qualified and competent, to be responsible for and administer the activities of the trust company. In addition, the board should define the officer's duties.
2. Name a trust committee consisting of at least three directors to be responsible for and supervise the activities of the trust company. The committee should include, where possible, one or more directors who are not active officers of the company.

The trust committee should:

- a. Meet at least quarterly, and more frequently if considered necessary and prudent to fulfill its supervisory responsibilities;
  - b. Approve and document the opening of all new trust accounts; all purchases and sales of, and changes in, trust assets; and the closing of trust accounts;
  - c. Provide for a comprehensive review of all new accounts for which the company has investment responsibility promptly following acceptance;
  - d. Provide for a review of each trust account, including collective investment funds, at least once during each calendar year. The scope, frequency, and level of review (trust committee, subcommittee, or disinterested account officer) should be addressed in appropriate written policies which give consideration to the company's fiduciary responsibilities, type and size of account, and other relevant factors. *Generally, discretionary account reviews should cover both administration of the account and suitability of the account's investments, and non-discretionary account reviews should only address account administration;*
  - e. Keep comprehensive minutes of meetings held and actions taken; and
  - f. Make periodic reports to the board of its actions.
3. Provide comprehensive written policies, which address all important areas of trust company activities.
  4. Provide competent legal counsel to advise trust officers and the trust committee on legal matters pertaining to fiduciary activities.
  5. Provide for adequate internal controls including appropriate controls over trust assets.

6. Provide for an adequate audit (by internal or external auditors or a combination thereof) of all fiduciary activities, annually. The findings of the audit, including actions taken as a result of the audit, should be recorded in its minutes.

*If a trust company adopts a continuous audit process instead of performing an annual external audit, management must report a thorough internal review of company operations and administration to the Board quarterly. The internal review should document company assets, liabilities, and equity position; company financial performance; assets held in trust accounts, both discretionary and non-discretionary; and any non-ordinary transactions. Additionally, internal controls and segregation of duties must be periodically assessed if the trust company adopts a continuous audit process instead of annual audit engagements. Internal audits may be performed, on an activity-by-activity basis, at intervals commensurate with the level of risk associated with that activity. Audit intervals must be supported and reassessed regularly to ensure appropriateness given the current risk and volume of the activity. Activity examples include account reconciliations, safekeeping/vault reconciliations, duty segregations, service provider due diligence reviews, account compliance reviews, information system assessments, fee assessments, etc.*

7. Receive reports from the trust committee and record actions taken in its minutes.
8. Review the examination reports of the trust company by supervisory agencies and record actions taken in its minutes.

#### EXAMINATION PROCEDURES

The trust company must pay all expenses associated with the examination including salaries, travel expenses, supplies, and equipment. Most examinations are scheduled for two weeks with at least one week performed on-site. The examination scope will include a review of management's implementation and adherence to sound fiduciary and investment policies and procedures; board and/or committee meeting minutes; South Dakota Situs; service provider relationships and due diligence procedures; affiliate/subsidiary relationships; internal/external audits; operations/internal controls; account and company compliance with applicable laws and governing documents; and, earnings/capital performance and trends.

For purposes of safety and soundness examinations, South Dakota-chartered trust companies are divided into two classes:

**Private Trust Company** – include all trust companies that limit activities to the management of private assets, usually for the benefit of a single family lineage.

**Public Trust Company** – The remaining will fall into the Public category. A Public trust company resembles a traditional bank trust department or trust company with the defining factor being the solicitation of and acceptance of public accounts.

Newly organized trust companies will be examined within eighteen months following issuance of the Certificate of Authority. Subsequent examinations will be scheduled according to the time frames discussed below.

#### Private Trust Company Examination Procedures

Private trust companies receive a limited scope review at least once every 36 months or sooner if deemed necessary by the Director, based on the volume and type of fiduciary activities. Upon completion, a composite rating of *Satisfactory*, *Needs Improvement*, or *Unsatisfactory* is assigned based on the following definitions:

- ***Satisfactory*** - Trust companies so rated are fundamentally sound. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management.
- ***Needs Improvement*** – Trust companies so rated exhibit some degree of supervisory concern in one or more areas. Moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct.
- ***Unsatisfactory*** - Trust companies in this group exhibit practices and conditions that may be unsafe and unsound if left unaddressed. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames.

#### Public Trust Company Examination Procedures

Public trust companies receive a full-scope examination at least once every 24 months or sooner if deemed necessary by the Director. Upon completion, a numeric rating of 1 through 5, with 5 being the worst, is assigned for individual components as well as the composite rating. The Uniform Interagency Trust Rating System and corresponding MOECA components (Management/Situs, Operations, Earnings/Capital, Compliance, and Asset Management) are used for assigning ratings. Composite ratings are assigned based on the following definitions:

- A Trust Rating of “1” is assigned. Trust companies in this group administer fiduciary activities in accordance with sound fiduciary principles. Any weaknesses are minor and can be handled in a routine manner by management. The institution is in substantial compliance with fiduciary laws and regulations. Risk management practices are strong relative to the size and complexity of the institution's fiduciary activities.



- A Trust Rating of “2” is assigned. Trust companies so rated are fundamentally sound. Only moderate weaknesses are present and are well within management’s capabilities and willingness to correct. Fiduciary activities are conducted in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size and complexity. There are no material supervisory concerns.
- A Trust Rating of “3” is assigned. Trust companies in this group exhibit some degree of supervisory concern in one or more of the component rating areas. A combination of weaknesses exists that may range from moderate to severe. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Additionally, fiduciary activities may reveal some significant noncompliance with laws and regulations. Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile. While problems of relative significance may exist, they are not of such importance as to pose a threat to the trust beneficiaries generally, or to the soundness of the institution. The institution's fiduciary activities require more than normal supervision and may include formal or informal enforcement actions.
- A Trust Rating of “4” is assigned. Trust companies so rated generally exhibit unsafe and unsound practices or conditions in their fiduciary activities, resulting in unsatisfactory performance. The problems range from severe to critically deficient and may be the result of inexperienced or inattentive management, weak or dangerous operating practices, or an accumulation of unsatisfactory features of lesser importance. The weaknesses and problems are not being satisfactorily addressed or resolved by the board of directors and management. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the size, complexity, and risk profile of fiduciary activities. These problems pose a threat to the account beneficiaries generally and, if left unchecked, could evolve into conditions that could cause significant losses to the institution and ultimately undermine the public confidence in the institution. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems.
- A Trust Rating of “5” is assigned. Trust companies in this group conduct fiduciary activities in an extremely unsafe and unsound manner. Administration of fiduciary activities is critically deficient in numerous major respects, with problems resulting from incompetent or neglectful administration, flagrant and/or repeated disregard for laws and regulations, or a willful departure from sound fiduciary principles and practices. The volume and severity of problems are beyond management’s ability or willingness to control or correct. Such conditions evidence a flagrant disregard for the interests of the beneficiaries and may pose a serious threat to the soundness of the institution. Continuous close supervisory attention is warranted and may include termination of the institution's fiduciary activities.

#### ADDITIONAL GUIDANCE

The Division has issued additional guidance covering various areas of trust operations and administration that may be useful. Please review the following guidance during the application process. The following guidance can be accessed through our website

<http://dlr.sd.gov/banking/default.aspx>:

BANK SECRECY ACT GUIDANCE

CUSTOMER IDENTIFICATION GUIDANCE

REGULATION R GUIDANCE

ACCOUNT REVIEW PROCEDURES

DUE DILIGENCE REVIEW PROCEDURES

POOLED INVESTMENT GUIDANCE

WRITTEN POLICIES AND PROCEDURES

INVESTMENT POLICY COMPONENTS

REAL ESTATE GUIDANCE